

What is claimed is:

1. An risk-adjusted pricing method for calculating the value of a derivative:
  - a. determining the underlying security;
  - b. determining the type of derivative;
  - c. determining the risks associated with said derivative;
  - d. determining the trading costs associated with said derivative;
  - e. formulating the risk-adjusted pricing (RAP) equation for said derivative;
  - f. solving said RAP equation for said derivative using numerical methods; and
  - g. outputting a value for said derivative based on said solving of said RAP equation.
2. An computer apparatus for calculating values of derivative securities comprising:
  - a. an input unit taking an input of derivative characteristics and model parameters;
  - b. a processing unit taking said input factors and computing a value for said derivative based on at least one of said inputs using a risk-adjusted pricing equation; and
  - c. an output unit displaying said value of said derivative.